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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 000150

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SUBJECT: B-A PIPELINE CLOSE TO FIRST DOWN; INDECISION ON  
MAJOR COMMERCIAL ISSUES KEEPS IT OUT OF END-ZONE

REF: SOFIA 1560

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Classified By: AMB. JOHN BEYRLER FOR REASONS 1.4 B & D

¶1. (C) SUMMARY Bulgaria, Russia and Greece plan to sign a broad intergovernmental agreement (IGA) giving the go ahead to the Burgas-Alexandropoulis (B-A) oil pipeline on February 7 or 8 in Burgas. Several key issues -- equity stakes, operation of the pipeline, and a final decision on control of the Universal Terminal Burgas (UTB) -- will likely be punted to future talks. The sides have shown some flexibility on UTB and previous Russian demands on land ownership. President Putin's recent public threat to find an alternate route has put pressure on Bulgaria and Greece to bend, but also show how badly Russia wants this route. The highly political IGA document is perceived as merely the opening kick-off of a tense contest involving Russian geo-political interests, oil companies' need for an outlet, and Bulgaria and Greece's scramble for more than the table scraps from this USD 900 million dollar deal. END SUMMARY

#### Universal Terminal Burgas

¶2. (C) Ownership and control of Universal Terminal Burgas (UTB) pumping station has been a serious fault line in talks between Bulgaria and Russia. Bulgaria, led by Minister of Energy Ovcharov, demanded separate Bulgarian ownership and control. Russia and the oil companies were equally firm that UTB had to be part of the overall consortium. As recently as January 19, Ovcharov told Ambassador Beyrle that there was a great deal of daylight between the two sides. Chevron representative Mark Woloshyn (protect), who talked to Transneft on January 30 and met previously with Bulgarian Minister for Regional Development Gagauzov, told us Gagauzov was showing flexibility on this issue. Ovcharov then complained to us on January 30 that Bulgaria might be giving away too much on UTB and Deputy Minister of Energy Tosheva confided that this issue may not be fully addressed in the February 7 agreement.

¶3. (C) The apparent difference of opinion between Ministers Ovcharov, who has overall say over most energy issues, and Gagauzov, who has legal control over pipelines, means there is still room for intra-governmental wrangling. There will also likely be additional horse-trading between the GOB and Russia, but the indications of some movement on one of the project's long-standing redline issues signals forward progress.

## Land

4.(C) Russia has reportedly backed down from its demand that Bulgaria carry out eminent domain proceedings for land that the consortium can not purchase on the market. Bulgaria's constitution permits expropriation only for state purposes; the pipeline is not considered a state entity.

## Equity Shares

15. (C) The 51 percent Russian, 24.5 percent Bulgarian and Greek division still stands. Even so, the sides have revealed no decision on what those shares buy or what each party would pony up for construction costs. Bulgaria has not yet decided how it will divvy up its share with private companies. Chevron is concerned about the high "entry fee" Bulgaria seeks for the company's participation - USD 200 million is the latest figure. Chevron is also unclear what that sum would purchase, but clearly wants an equity stake equal to its share of oil in the project. Putin wants the project to happen and has asked Transneft to make it work, according to Chevron. They, in turn, have been asked by Transneft to participate.

## Transneft as Operator

16. (C) Russia suggested Transneft as operator, and Bulgaria originally balked. But Tosheva indicated that some sort of shared operation would likely work for all sides. Woloshyn was also optimistic the issue could be worked out. It is unclear if this will be resolved in the February 7 document.

## Taxes

17. (C) Greece and Bulgaria have not agreed to waive VAT on imported construction material. Russia is keen to get this

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tax break for its builders, but it is unclear if doing so would violate Bulgaria and Greece's commitments to the EU.

## CPC connection

18. (C) Chevron is primarily in this game as a way to obtain expansion of the Caspian Pipeline Company (CPC). Once it expands output, the company will need a Bosphorous bypass more than ever, they told us. Chevron believes B-A is the best route, and does not want to use a Turkish route because of the higher cost of construction and the control that would give Turkey over virtually all Russian and Caspian oil transit. But Woloshyn mentioned that Russia had re-started negotiations with Turkey on Samsun-Ceyhan as a way to put pressure on Bulgaria and Greece. Putin's February 1 comments that Russia would look to other pipeline routes hit Sofia as a clear attempt to ratchet up pressure on Greece and Bulgaria to cave in to Russian demands. How far that plays is uncertain. Chevron, for example, does not believe AMBO is a viable route.

## AMBO

19. (C) Bulgaria, Macedonia and Albania signed an three-way convention for the AMBO pipeline on January 31. This agreement gives an overall legal framework to the project for investors and host governments. The big question of oil throughput, which has eluded AMBO so far, still exists, AMBO's CEO told us on February 1. AMBO hopes to use this recent signing as a springboard to attract more investors, and then, oil commitments. AMBO intends to start environmental, engineering and other studies in the next few months. It is more confident about Vlore than Burgas as terminal ports -- considering the infrastructure at Burgas and Russian-Bulgaria jockeying as problem areas. The CEO suspected political gamesmanship in having the signings of the B-A and AMBO agreements so close together.

¶10. (C) COMMENT The intergovernmental agreement on B-A is not yet a done deal. Even if it is signed on February 7, the parties will still have to wrestle over the issues that will determine the market-worthiness of the project. We'll know B-A is headed for the goal line when we hear the sides have resolved - in writing - ownership of the terminal; equity stakes, including a fair oil-to-equity agreement; and who will operate the pipeline. If CPC expansion is approved, we'll know the game is well in hand. For now, this latest B-A agreement will keep the teams on the field.  
BEYRLE